

Message Text

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PAGE 01 CAIRO 05137 221154Z

51

ACTION NEA-10

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INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

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AMEMBASSY TEHRAN

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SUBJECT: GOE TO SELL SHARES IN PUBLIC SECTOR COMPANIES

SUMMARY: AS RESULT PRESIDENTIAL DECREE MAY 20, INDIVIDUALS WILL BE ABLE TO BUY SHARES OF STOCK IN PUBLIC-SECTOR COMPANIES, NUMBER OF DETAILS REMAIN TO BE SETTLED BY IMPLEMENTING REGULATIONS, AND IT IS NOT CLEAR HOW MUCH RESPONSE THERE WILL BE IN OPEN MARKET, BUT DECREE IS SIGNIFICANT INDICATOR OF ECONOMIC DIRECTION SADAT REGIME INTENDS TO TAKE. END SUMMARY.

1. ON MAY 20 PRESIDENT SADAT ISSUED A DECREE PROVIDING FOR ISSUANCE OF NEW SHARES BY PUBLIC-SECTOR COMPANIES AND THEIR SALE TO PRIVATE INDIVIDUALS. ALTHOUGH REGULATIONS IMPLEMENTING DECREE HAVE NOT YET BEEN PUBLISHED, IT APPEARS THAT THEY WILL BE ALONG FOLLOWING LINES:

A. PRIORITY FOR PURCHASE OF NEW SHARES WILL GO TO EMPLOYEES OF COMPANY IN QUESTION, PROBABLY UTILIZING WORKERS' SHARE OF PROFITS

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PAGE 02 CAIRO 05137 221154Z

(SET AT 25 0/0) AND/OR SALARY DEDUCTIONS TO COVER COSTS. AFTER A

PERIOD OF ONE MONTH, SHARES REMAINING UNSOLD WILL BE MADE AVAILABLE TO GENERAL PUBLIC.

B. TOTAL OF OLD AND NEW SHARES HELD BY ANY INDIVIDUAL (IN ANY ONE COMPANY, PRESUMABLY) CANNOT EXCEED L.E.10,000.

C. ONLY CERTAIN FIRMS WILL BE ALLOWED TO ISSUE NEW SHARES, DEPENDING ON THEIR FINANCIAL POSITION AND VOLUME OF OPERATIONS, FOLLOWING APPROVAL BY PRODUCTION COMMITTEE AND CABINET. COMPANIES MANUFACTURING STRATEGIC GOODS WILL CONTINUE TO RAISE CAPITAL THROUGH GOVERNMENT CHANNELS, INCLUDING BANKS AND INSURANCE COMPANIES.

D. COMPANIES THAT WERE ORIGINALLY PRIVATE AND WERE NATIONALIZED, AS OPPOSED TO THOSE WHICH WERE CONCEIVED AS PUBLIC COMPANIES, WILL PROBABLY BE FIRST ONES TO ISSUE SHARES.

2. A NUMBER OF RELATED DECISIONS WILL HAVE TO BE MADE BEFORE SCHEME CAN BECOME FULLY OPERATIONAL, INCLUDING MECHANISMS FOR DETERMINING PRICES OF SHARES, GENERAL RULES FOR SIZE OF INCREASE IN CAPITALIZATION, AND PERHAPS REORGANIZATION OF STOCK MARKET, BUT IF IT IS EFFECTIVE, GOE EXPECTS THAT RESULT WILL BENEFIT COUNTRY BY INCREASING OPPORTUNITIES FOR EXPANDING OPERATIONS OF AFFECTED COMPANIES, EASING BURDEN ON CENTRAL BUDGET, AND ABSORBING PRIVATE SAVINGS.

3. COMMENT: DECREE IS ONE OF A NUMBER OF STEPS THAT GOE HAS HAD UNDER DISCUSSION FOR SOME TIME, WHICH ARE DESIGNED TO FURTHER LIBERALIZE ECONOMY (SEPTTEL COVERS SEVERAL OF THOSE WHICH APPEAR TO BE IMMINENT). PRIMIN SALIM, IN CONVERSATION WITH UNDER SECRETARY ROBINSON AND CHARGE ON MAY 20, DURING FORMER'S VISIT TO CAIRO ON GENERAL SUBJECT OF US-EGYPTIAN ECONOMIC RELATIONS, CITED SALE OF SHARES TO PUBLIC AS ONE OF MAJOR MOVES THAT WOULD BE MADE IN THIS DIRECTION.

4. EGYPT HAS A SMALL STOCK MARKET, WHERE SHARES OF A FEW PRIVATE AND PUBLIC/PRIVATE COMPANIES ARE TRADED. WHILE BLOCKS OF SHARES IN PUBLIC COMPANIES HAVE BEEN ISSUED IN PAST YEARS, THEY WERE NEVER MADE AVAILABLE TO INDIVIDUALS; PURCHASE OF STIPULATED AMOUNTS WAS MANDATORY BY COMPANIES THEMSELVES LIMITED OFFICIAL USE

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PAGE 03 CAIRO 05137 221154Z

USING CERTAIN PERCENTAGE OF PROFITS, BY WORKER'S COMMITTEES, USING CERTAIN PERCENTAGE OF THEIR SHARE OF PROFITS, AND BY BANKS, INSURANCE COMPANIES, ETC. IN TERMS OF EGYPTIAN ECONOMY, THEREFORE, DECISION REPRESENTS SHARP DEPARTURE FROM PAST PRACTICE, ONE THAT MAY CAUSE CONCERN TO THOSE HEWING CLOSELY TO ARAB SOCIALIST LINE.

5. SUCCESS OF EFFORT, HOWEVER, WILL DEPEND TO A VERY LARGE

DEGREE OF APPRECIATION OF COMPANIES' OPERATIONS AND PROSPECTS
BY POTENTIAL INVESTORS. SOME ARE DOING QUITE WELL, BUT TOO
MANY FIRMS ARE SHAKILY MANAGED TO LEAD TO EXPECTATIONS THAT
ALL NEW ISSUES WILL BE SNAPPED UP IMMEDIATELY. NEVERTHELESS,
AS AN INDICATION OF ECONOMIC PATH SADAT REGIME INTENDS TO
FOLLOW, DECREE HAS CONSIDERABLE SIGNIFICANCE.
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